CFA Institute

560 Ray C. Hunt Drive
Charlottesville, VA
22903-2981 USA

+1 (434) 951 5499 tel
+1 (434) 951 5262 fax
info@cfainstitute.org
www.cfainstitute.org

4 March 2016

**Re: Joint Committee Discussion Paper on Automation in Financial Advice**

Dear Sir/Madam:

CFA Institute appreciates the opportunity to comment on the Joint Committee of the European Supervisory Authorities' ("ESAs") discussion paper on automation in financial advice. CFA Institute is a global, not-for-profit professional association of more than 133,000 investment analysts, advisers, portfolio managers, and other investment professionals in 151 countries, of whom more than 125,500 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 145 member societies in 70 countries and territories. CFA Institute represents the views of those investment professionals who are its members before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

**Background**

In order to inform our response to this survey as well as the broader policy debate, CFA Institute conducted a survey of our members (involved in a wide variety of functions related to investment management) who have previously expressed interest in capital markets policy issues. The survey was distributed to members on the 5th February 2016 and closed on the 19th February 2016. 3,803 members were invited to participate in the survey and 775 complete responses were received, for a response rate of 20%. This response rate is quite exceptional relative to other surveys, which reflects the interest and controversy FinTech issues generate among investment professionals.

92% of respondents are CFA charter holders and 27% are from the EMEA region. More specifically, 16% of all respondents are from the EU (compared to 56% from the Americas and 17% from Asia-Pacific).64% of all respondents described themselves as somewhat or very familiar with automated financial advice tools while 16% answered that they were not at all familiar. Members from the Americas had the highest level of familiarity, with 75% being somewhat or very familiar, compared to 50% of EU respondents.

The complete survey distributed to members is attached at the end of this document.

## CHARACTERISTICS:

**Question 1: Do you agree with the assessment of the characteristics of automated financial advice tools presented in this Discussion Paper? If not, please explain why.**

We agree with the assessment of characteristics of automated financial advice tools.

**Question 2: Are there any other relevant characteristics of automated financial advice tools?**

We believe that the characteristics identified are comprehensive.

**Question 3: Are you aware of examples of automated financial advice tools being used in the banking, insurance, and/or securities sectors? Please provide examples, giving details of their operating process.**

We have no response to this question.

**Question 4: Do you offer/are you considering offering automated financial advice tools as part of your business model?**

Not applicable to our organization as a professional member association.

**Question 5: Do you consider there are barriers preventing you from offering/developing automated financial advice tools in the banking, insurance, and securities sectors? If so, which barriers?**

Not applicable to our organization as a professional member association.

## BENEFITS TO CONSUMERS:

**Question 6: Do you consider the potential benefits to be accurately described? If not, please explain why.**

We agree that the potential benefits are described accurately and comprehensively.

Our survey of our members offers important confirmation of some of the potential benefits of automated financial advice (questions 2-5 of the CFA survey in particular). Key findings include:

- 70% of survey respondents think mass affluent investors will be positively affected by automated financial advice tools, which is consistent with the anecdotal observation of robo-advisers targeting the lower-end passive investment market. Interestingly, the survey responses suggest that high net worth, ultra-high net worth, and institutional investors will not be affected by automated financial advice tools. The proportion of respondents answering ‘not affected’ seems to increase with the wealth of the hypothetical investor (46% for high net worth, 71% for ultra-high net worth).
- The implication is that the tailored nature of financial advice to these market segments is not as easily amenable to standardized automation tools. This is reflected in the survey question 5 where 67-70% of respondents thought institutional and ultra-high net worth investors would not see financial automation tools replace human advisers *at all* while 88% of respondents thought mass affluent investors would somewhat or entirely replace human advisors with automated services.
- An overwhelming 89% of survey respondents think that automated financial advice will have a positive impact on costs for consumers (that is, lowering the costs). 62% think access to advice will be improved and 55% think that product choice will increase. However, the quality of service is predicted by 47% of respondents to worsen and there is an even split between respondents who think market fraud and mis-selling may or may not get worse.
- Finally, 54% of respondents believed that asset management would be the sector most influenced by financial advice tools. This likely reflects the extent of market penetration and awareness achieved by robo-advisors since banking (16%), securities (12%) and insurance (8%) each received a far lower response. Interestingly, EU respondents put relatively greater weight on banking (24%) relative to asset management (47%) compared to global survey population perhaps reflecting the smaller role played by asset managers in investment decisions compared to the Americas.

**Question 7: Are you aware of any additional benefits to consumers? If so, please describe them.**

We believe the description of the benefits to consumers is comprehensive.

**Question 8: Do you see any differences in the potential benefits arising for consumers in each of the banking, insurance, and securities sectors?**

Beyond the relevant CFA Institute member responses discussed in our answer to Question 6, we have no response to this question.

**Question 9: Have you observed any of these potential benefits? If so, please provide examples and describe the kind of benefit that has accrued.**

Beyond the relevant CFA Institute member responses discussed in our answer to Question 6, we have no response to this question.

**BENEFITS TO FINANCIAL INSTITUTIONS:**

**Question 10: Do you consider the potential benefits to financial institutions to be accurately described? If not, please explain why.**

Yes we feel the description of potential benefits to financial institutions is accurately described.

Several findings from our CFA Institute member survey are relevant to consideration of positive effects on financial institutions:

- Approximately 40% of survey respondents thought that robo-advisers would have the greatest impact on the financial services industry both in the short-term (1 year) and long-term (5 years). However, the aggregate response disguises large regional variations. Specifically, American responders were more likely than EMEA responders to consider robo-advisers to be most significant (39% versus 25%). Respondents from the EMEA region were more likely to consider crowdfunding and marketplace/peer-to-peer lending to have the greatest potential short-term impact. This result may be of interest to the ESAs given the current push for Capital Markets Union and its focus on crowdfunding. These regional differences disappear at the long-term (5 year) horizon.
- Perhaps the most striking result in this section of the survey is that while only 11% of respondents thought blockchain technology would have the greatest impact in the short-term, fully 30% of respondents thought it would have the largest impact on the financial services industry within 5 years. The 5-year outlook for marketplace/peer-to-peer lending and crowdfunding was conversely *lower* than the short-term 1-year outlook, suggesting that while blockchain is still a fledgling technology, respondents believe it will ultimately be more significant than crowdfunding.
- The specific impact of blockchain technology on financial services is addressed in survey question 9 and the results suggest that clearing and settlement, alternative currencies and commercial banking will be the top-3 areas of impact. We caution that approximately one in three respondents were not able to comment on this question implying that a large proportion of the investment management profession has a limited awareness and familiarity with blockchain technology.

**Question 11: Are you aware of any additional benefits to financial institutions? If so, please describe them.**

We believe the description of benefits to financial institutions is comprehensive.

**Question 12: Do you see any differences in the potential benefits arising for financial institutions in each of the banking, insurance and securities sectors?**

Beyond the relevant CFA Institute member responses discussed in our answer to Question 10, we have no response to this question.

**Question 13: Have you observed any of these potential benefits? If so, please provide examples and describe the kind of benefit that has accrued.**

Beyond the relevant CFA Institute member responses discussed in our answer to Question 10, we have no response to this question.

**RISKS TO CONSUMERS:**

**Question 14: Do you agree with the description of the potential risks identified? If not, explain why.**

Our survey of CFA Institute members addresses several aspects of risk to consumers:

- 46% of respondents thought that flaws in the automated financial advice algorithms were the greatest risk of automated financial advice tools. This was followed by mis-selling (30%) and privacy and data protection concerns (12Given the previously mentioned interest of CMU in crowdfunding, marketplace and peer-to-peer lending, it is informative to note that 38% of survey respondents thought that the current balance between ease of access and investor protections in these marketplaces was not correct. Only 9% of respondents thought the balance was correct and 53% were not sure. The respondents that answered 'not sure' were almost universally answering this way because of a lack of familiarity with this type of lending.
- Of the respondents who thought that the current balance was correct, many verbatim responses were of the opinion that investors are entering into these transactions with eyes open and are able to take care of their own interests.
- Of the respondents who felt there was imbalance between ease of access and investor protections, the verbatim responses revealed concerns with the lack of formal investor

protections, and the lack of issuer information making it impossible for investors to look out for their own interests. Issues raised included:

- Asymmetric information, particularly with regards to credit history and default probabilities of issuers.
- Insufficient detail on the investment opportunities being pursued by issuers with the funds raised.
- A common complain was that crowdfunding sought to make complex investment decisions appear simple, at the cost of enticing unsophisticated investors into transactions they could ill afford.

**Question 15: Do you consider there to be any risks missing? If so, please explain.**

We believe the description of risks to consumers is comprehensive.

**Question 16: Do you see any differences in the potential risks arising for consumers in each of the banking, insurance and securities sectors?**

Beyond the relevant CFA Institute member responses discussed in our answer to Question 14, we have no response to this question.

**Question 17: Have you observed any of these risks causing detriment to consumers? If so, in what way?**

Beyond the relevant CFA Institute member responses discussed in our answer to Question 14, we have no response to this question.

## RISKS TO FINANCIAL INSTITUTIONS:

**Question 18: Do you agree with the description of the potential risks identified? If not, explain why.**

We believe that the described potential risk of overuse by consumers of any alternative means to obtain advice is probably overstated. We believe that financial institutions who choose to offer companion advice products to automated advice products will be able to price their service appropriately to reflect the costs incurred and/or realize benefits of enhanced relationship building that may offset the marginal costs.

**Question 19: Do you consider there to be any risks missing? If so, please explain.**

Financial institutions may be exposed to systemic risks that are created from homogenous advice offerings that concentrate assets and create pro-cyclical declines in prices during periods of disorderly liquidation.

**Question 20: Do you see any differences in the potential risks arising for financial institutions in each of the banking, insurance and securities sectors?**

We have no response to this question.

**Question 21: Have you observed any of these risks causing detriment to financial institutions? If so, in what way?**

We have no response to this question.

**Conclusion**

We welcome the interest of the European Supervisory Authorities' interest in financial advice automation and FinTech issues in general and appreciate the opportunity to contribute the results of our member survey with the intention of informing the debate around these issues. Should you have any questions about our positions, please do not hesitate to contact Sviatoslav Rosov, CFA at sviatoslav.rosov@cfainstitute.org, 020 7330 9558 or Rhodri Preece, CFA at rhodri.preece@cfainstitute.org, 020 7330 9522.

Sincerely,

/s/ Sviatoslav Rosov

Sviatoslav Rosov, PhD, CFA
Analyst, Capital Markets Policy
CFA Institute

/s/ Rhodri Preece

Rhodri Preece, CFA
Head, Capital Markets Policy
CFA Institute

**CFA INSTITUTE MEMBER SURVEY**

Financial Technology or FinTech is attracting increasing attention from consumers, investors, the investment management industry and regulators across the globe. CFA Institute is interested in your views on a range of FinTech topics to inform a variety of work being done, including responses to consultation and discussion papers, media commentary and thought leadership projects.

We are seeking your participation as a member of our Capital Markets opt-in survey panel. Your feedback in this short survey will help inform our work in this area.

You can access the 5 minute survey via the link below.

We will make the survey results available on our website in the coming months. Thank you in advance for your participation.

Sincerely,

CFA Institute

**1. How familiar are you with automated financial advice tools (e.g. robo advisers)?**

- Very familiar
- Somewhat familiar
- Somewhat unfamiliar
- Not at all familiar

**2. Which sector do you think will be most affected by automated financial advice tools?**

- Banking
- Insurance
- Securities
- Asset management
- Other, please specify: [text box]
- None of the above

**3. How will the following investors be affected by automated financial advice tools?**

- Mass affluent
- High net worth
- Ultra-high net worth
- Institutional

- Other
    - Positively affected
    - Negatively affected
    - Not affected
    - No opinion

**4. How will the provision of automated financial advice tools affect consumers, if at all?**

- Costs
- Access to advice
- Product choice
- Quality of service
- Incidence of market fraud / mis-selling
    - Positively affected
    - Negatively affected
    - Not affected
    - No opinion

**5. To what extent do you think automated financial advice will replace engagement with human advisors for the following types of investors? ( 1 means not at all, 7 means entirely)**

Scale: 1 Not at all to 7 Entirely; Not sure

- Mass affluent investors
- High net worth investors
- Ultra-high net worth investors
- Institutional investors

**6. What do you consider to be the biggest risk, if any, that could be introduced from automated financial advice tools?**

- Mis-selling of financial advice
- Flaws in the automated financial advice algorithms
- Privacy and data protection concerns
- Other, please specify: [text box]
- None of the above
- Not sure

**7. Which technology do you see as having the greatest impact on the financial services industry 1 year from now?**

- Robo-advisers
- Blockchain technology
- Crowdfunding
- Marketplace / Peer-to-Peer lending
- Other, please specify: [text box]
- Not sure

**8. Which technology do you see as having the greatest impact on the financial services industry 5 years from now?**

- Robo-advisers
- Blockchain technology
- Crowdfunding
- Marketplace / Peer-to-Peer lending
- Other, please specify: [text box]
- Not sure

**9. What impact, if any, will blockchain technology have on the following aspects of financial services? (1 = No impact at all, 7 = Significant impact)**

- Commercial banking (e.g. payments systems)
- Asset management
- Asset servicing (e.g. custody, securities financing)
- Fund administration (e.g. record keeping)
- Clearing and settlement
- Real estate
- Alternative currencies
- Capital markets infrastructure
- Other banking, please specify: [text box]

**10. Do existing crowdfunding and/or peer-to-peer lending marketplaces have the right balance between ease of access and investor protection?**

- Yes
- No
- Not sure

Please explain your response: [text box]

**11. Please share any additional comments or opinions you have regarding Financial Technology (FinTech):**

[open comment box]